REBUTTAL TESTIMONY

OF

GREG ROCKROHR

SAFETY AND RELIABILITY DIVISION
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a Ameren Illinois
and
MidAmerican Energy Company d/b/a MidAmerican

DOCKET NO. 14-0572

Petition for Declaratory Ruling that Approval of Purchase of Utility Assets is not Necessary pursuant to Section 7-102 and 83 Illinois Administrative Code 105.40 or, in the alternative, Approval of Purchase of Utility Assets pursuant to Section 7-102; Transfer of Franchises, Licenses, Permits or Rights to Own pursuant to Section 7-203; Transfer of Certificates of Convenience and Necessity pursuant to Section 8-406; and the Granting of All Other Necessary and Appropriate Relief.

March 12, 2015

Table of Contents

Introduction

Q. **What is your name and business address?**

A. My name is Greg Rockrohr. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. **Are you the same Greg Rockrohr who previously provided direct testimony in this docket?**

A. Yes. My prepared direct testimony, Staff Ex. 1.0, was filed on January 23, 2015.

Q. **What is the purpose of your rebuttal testimony?**

A. Ameren Illinois Company d/b/a Ameren Illinois ("AIC") and MidAmerican Energy Company d/b/a MidAmerican ("MEC") (together, "Companies") propose a transfer from MEC to AIC of the southern 17.2 miles of a proposed new 32-mile long 161 kV transmission line between MEC's Oak Grove Substation, located south of Rock Island, and ATXI's Sandburg Substation, to be constructed in East Galesburg ("Transmission Line"). The proposed 32-mile long 161 kV transmission line is to replace an existing 161 kV transmission line that extends from MEC's Oak Grove Substation to AIC's East Galesburg Substation, and is to be installed on the same poles as a proposed 345 kV transmission line. Attachment A is a simple sketch I created to show how the various proposed transmission lines and substations fit together.[1] In my direct testimony, I explained my position that, since the Transmission Line's value was approximately $14 million, the Commission's approval for the asset transfer involving the Transmission Line is required. I recommended that the Commission approve the transfer subject to certain conditions. On February 6, 2015, the Companies filed rebuttal testimony that

[1] Note that the letter "D" in Attachment A designates the Transmission Line that is the topic of this docket.

generally states that the Companies disagree with my rationale, but agree to the conditions that I recommend. During a status hearing held on February 18, 2015, the administrative law judges ("ALJs") requested that Staff file rebuttal testimony in response to topics discussed in the rebuttal testimony of MEC witness Mr. Dehn Stevens.[2] My rebuttal testimony is in response to the ALJs' request.

Q. **What specific issues did the ALJs ask Staff to cover in rebuttal testimony?**

A. My understanding is that the ALJs would like additional information about the transfer of the Transmission Line with respect to the following five topics:

1. Alternative methods of cost recovery;
2. Alignment of investment, ownership, and needs;
3. Past asset transfers similar in nature to what is contemplated in this docket;
4. Reasonableness of re-using existing transmission components;
5. Effect of Companies' rebuttal testimony on Staff's recommendation.

Q. **What is your understanding of the specific questions the ALJs asked?**

A. The ALJs essentially asked seven questions which are as follows:

ALJs # 1. With respect to the two alternative cost recoveries discussed by Mr. Stevens, "was there anything Staff had to say about those two different alternatives"? (Tr. 23:19-24:3, February 18, 2015.)

ALJs # 2. Mr. Steven's "states that the final investment and ownership amounts are aligned with the respective needs of the parties." Does Staff agree with that? (Tr. 24:5-8, February 18, 2015)

[2] Tr. 23-25.

ALJs # 3. Is the investment being aligned with the needs of the party "the appropriate test for setting the sale price"? (Tr. 24:8-10, February 18, 2015)

ALJs # 4. Is "there a policy basis for that type of valuation", where the investment is aligned with the needs of the party? (Tr. 24:11-12, February 18, 2015)

ALJs # 5. Is there "any example that anybody's aware of a similar situation where an asset was being sold and at the same time that it was being sold it was being greatly improved for reasons other than the purchasers."? (Tr. 24:12-16, February 18, 2015)

ALJs # 6. Does Staff agree "that from an engineering point of view it would not be practical to reuse any of the existing 161 kV components in the new line"? (Tr. 24:17-20, February 18, 2015)

ALJs # 7. Does the Companies' "assertion that AIC really only wants or needs the 161kV line as it is now change Staff's opinion about the timing for this certificates or the sale or the need to condition the transfer on approvals in 14-0494 and 14-0514"? (Tr. 24:21- 25:2, February 18, 2015.)

1 Alternative Methods for Transmission Line Cost Recovery

ALJs' Question #1

Q. **At lines 74-81 of MidAmerican Ex. DAS 1.0, Mr. Stevens explains two potential methods of cost recovery for the proposed 161 kV transmission line: (a) from customers across the MISO footprint, or (b) from only MEC and AIC customers through zonal transmission rates. Do you have any comment regarding Mr. Stevens' discussion and explanation?**

A. Mr. Stevens explains that if construction of the proposed 161 kV line were not included as part of MISO's Multi-Value Project ("MVP") Portfolio, then MVP cost sharing across MISO would not apply, and instead costs for the 161 kV transmission line, if constructed, would be born solely by MEC and AIC customers through zonal transmission rates. My understanding matches Mr. Stevens' explanation for the hypothetical scenario he describes. However, the hypothetical scenario Mr. Stevens' describes is not what is contemplated. The new 32-mile long 161 kV transmission line at issue is part of MISO's sixteenth Multi-Value Project ("MVP-16"). The proposed Oak Grove to Sandburg line that MEC proposes in Docket No. 14-0494 and that is included in MVP-16 is a double-circuit 345/161 kV line. Since both the 345 kV line and the 161 kV line are part of MVP-16, if the lines are constructed, the manner that the project's costs will be allocated is already established. There is no choice to be made.

Mr. Stevens and I also agree regarding the cost allocation that will actually be used for the 345/161 kV double-circuit transmission line, if the lines are constructed. MISO has gained approval for its MVP cost allocation methodology at FERC.[3] The 345 kV <u>and</u> 161 kV lines are part of MVP-16. As part of MVP-16, allocation for cost recovery for MEC's double-circuit 345/161 kV transmission line, including the portion that comprises the Transmission Line, will be across the entire MISO footprint.

Q. **Does the manner that costs for an asset, such as the Transmission Line, are allocated affect its value?**

[3] FERC Docket Nos. ER10-1791-001 and ER10-1791-002

A. No. The proposed method of allocation has no real effect on the value of the Transmission Line. As an illustration, if a community constructs a new library building for $3 million to replace an existing library building, the value of the new library remains $3 million regardless of whether the cost is covered by an incremental tax increase to all residents, or whether a single resident or corporation pays for it. The same would be true for the Transmission Line. Its value would not depend on whether customers across MISO pay for it or only AIC and MEC customers pay for it.

Q. **Is the value of the new Transmission Line the same as the value of the existing depreciated 161 kV line that is to be removed?**

A. No. Continuing the analogy of the library, if the new library is to be constructed on the same city lot as the existing library, so that the existing library must first be demolished, that fact does not cause the value of the new library to become equal to the value of the now non-existent library that was torn down. Though the demolished library building had little residual value, the value of the new library building, once constructed, is $3 million. Regardless of whether any individual, even the librarian, preferred the old library building: the value of the new library would remain $3 million. The value of the new library building would not become the value of the old library building (that no longer even exists) if the librarian thought the old library building was adequate. Similarly, with respect to the Transmission Line transfer, regardless of whether AIC wants a new 161 kV transmission line, the new transmission line is what the petition states it will purchase. The value of the Transmission Line it plans to purchase will be approximately $14 million, not the net book value of the existing 161 kV line that will no longer exist. The fact that MEC plans to sell the Transmission Line to AIC for a reduced price and recover the rest of its cost from ratepayers across MISO does not cause the Transmission Line's value to diminish.

In sum, the value of the Transmission Line will be approximately $14 million regardless of how the cost is allocated, and regardless of how much of the $14 million cost AIC pays MEC. If this were not so, MEC would have no reason to include any cost for the Transmission Line (its actual cost in excess of AIC's payment), along with its costs for the proposed 345 kV line, for recovery as part of MVP-16. MEC plans to recover the $14 million for the constructing the 161 kV line by adding that cost to its cost for constructing the 345 kV line that will be supported by the same poles.

2 Investment, Ownership, and Needs

ALJs' Question #2

Q. **At lines 81-84 of MidAmerican Ex. DAS 1.0, Mr. Stevens states: "I would also point out that, as between MidAmerican and Ameren, the relative responsibilities to construct various parts of the MVP-16 project are important in the context of the broader realignment of facilities because the final ownership and investment amounts are aligned with the respective needs of the parties." Do you agree with Mr. Stevens' statement?**

A. To the extent that Mr. Stevens' statement indicates that the proposed asset transfer places with AIC the ownership of (1) the Transformers at East Galesburg Substation and (2) the Transmission Line that will supply AIC's Mercer Substation, I agree. However, regarding the relative responsibilities to construct the new double circuit 345/161 kV transmission line from Oak Grove to Sandburg

Substations, I do not necessarily agree. The Companies make it clear that it is AIC, not MEC, that needs the 161 kV connection from Oak Grove. Specifically, in paragraph #4 of Ameren Ex. 1.1, Mr. Gary Brownfield states: "One possible change discussed was termination of the interconnection due to the decreased importance of the connection to MidAmerican as noted in Mr. Dehn Stevens' Affidavit. Ameren Illinois desired to retain the interconnection and, at the suggestion of MidAmerican, agreed in concept in 2009 to purchase the two 161-138 kV transformers and a section of the Oak Grove – Galesburg 161 kV line from MidAmerican." Similarly, in paragraph #6 on page 3 in Schedule 1 to MidAmerican Ex. 1.0, Mr. Stevens explains that the 161 kV connection has decreased in importance for MEC. Elsewhere, in Docket No. 14-0494, MEC witness Mr. James Swanson explains that AIC intends to install Mercer Substation along the Oak Grove to East Galesburg 161 kV line, and that without upgrades, overloads will exist on the Oak Grove to Mercer segment of this line.[4] I note that such overloads could place AIC's customers at risk, not MEC's. So, if considering the needs of the parties, I would conclude that AIC is the party that needs the new upgraded 161 kV line, and MEC does not need it. Aligning construction responsibility with need would result in AIC constructing the 161 kV line, not MEC.

<u>ALJs' Questions #3 & 4</u>

Q. **Is aligning the investment with the needs of the parties the appropriate test for setting the sale price?**

A. No. As explained above, it is AIC, not MEC, that most needs the 161 kV line in order to maintain reliable service to its customers under certain contingency

[4] Docket No. 14-0494, MidAmerican Ex. 4.0 N, ll. 109-158.

conditions. While it is AIC that needs the line, it is MEC that plans to construct it, and then sell the Mercer to Sandburg segment to AIC. Normally, I would expect the sales price of an asset to reflect the value of the asset, but in this case both parties agree to a different price for the subject transmission asset, and as it turns out, the ratepayers of neither utility would be harmed by that different price as explained below. Therefore, I know of no reason to oppose the transfer at the contemplated price.

Q. **What facts caused you to conclude that ratepayers would not be harmed by the transfer of the Transmission Line at the contemplated price?**

A. In this docket, it is my understanding that MEC agrees to sell an asset worth approximately $14 million to AIC for approximately $120,000. This means that MEC will wind up recovering the balance of its cost for constructing the Transmission Line somehow. <u>Because the Transmission Line is included as part of MVP-16</u>, MEC will recover the remainder of its $14 million cost for the Transmission Line (not collected from AIC) from customers across the entire MISO footprint. If, instead of approximately $120,000, AIC were to instead pay MEC the full $14 million for the Transmission Line, provided the Transmission Line was included as part of MVP-16, AIC could then recover its $14 million cost from customers across the entire MISO footprint. Further, even if a third-party transmission owner, such as ATXI, constructed the 161 kV line, the cost recovery would still be from customers across the entire MISO footprint. My point here is that transmission rates for customers in MEC's service area, in AIC's service area, and in every other service area within the MISO footprint will see virtually the same incremental increase due to construction of the $14 million Transmission Line, regardless of which entity actually constructs it and recovers the cost via transmission rates. Again, <u>this is only true because the Transmission Line is included in MISO's MVP Portfolio</u>.

Q. **What entity should construct the Transmission Line?**

A. It makes the most sense that the same entity that constructs the proposed Oak Grove to Sandburg 345 kV line also constructs the 161 kV line because both lines will be supported by the same poles, and it would be more efficient to construct them together. In this docket, MEC and AIC appear to agree that MEC will be constructing the 345 kV line from Oak Grove to Sandburg Substations. In addition, MEC's petition in Docket 14-0494 indicates that MEC will be the entity that constructs the Oak Grove to Sandburg 345 kV line. I conclude, then, that MEC should also construct the Transmission Line - even though it is AIC that actually needs the Transmission Line. Conversely, if AIC were to construct the 345 kV from Oak Grove to Sandburg instead of MEC, then I would conclude that AIC should construct the Transmission Line. Regardless of which entity constructs it, the cost for the Transmission Line will be recovered from customers across the MISO footprint.

<u>3 Valuation Examples</u>

<u>ALJs' Question #5</u>

Q. **Are you aware of circumstance(s) where an asset was sold at the same time the asset was greatly improved for reasons other than the purchaser's?**

A. No. Though not involving an asset transfer, a somewhat analogous situation arose in a 2009 rate case (Docket Nos. 09-0306 to 09-0311 (cons.)). AmerenCIPS constructed an entirely new substation so that it could clean up coal tar from beneath its existing substation. The existing substation was working fine, adequately providing service to customers. The existing substation was old, but was not in need of replacement. AmerenCIPS added the cost of its new substation that it did not really need into its rate base.[5] It did not claim that the value of the new East Pana Substation was the same as the book value of the no-longer-existent East Pana Substation.

4 Re-use of Transmission Line Components

ALJs' Question # 6

Q. **At lines 130-139 of MidAmerican Ex. DAS 1.0, Mr. Stevens explains that it is not prudent to attempt to re-use any of the existing line's components as part of the new 161 kV line. Do you agree?**

A. Yes. I fully agree for the reasons that Mr. Stevens provides.

5 Recommendation for Conditional Approval

ALJs' Question #7

Q. **In your direct testimony you recommended that the Commission's approval of the proposed transfer of the Transmission Line be conditioned on the outcome of Docket Nos. 14-0494 and 14-0514. Does the Companies' assertion that AIC really only wants or needs the 161 kV line as it is now cause you to modify your recommendation?**

A. No. The transaction presented in the Companies' petition involves a Transmission Line that does not yet exist, and that MEC estimates will cost more than $14 million to construct. Even if AIC really only wants or needs the existing 161 kV line rather than the newly constructed $14 million Transmission Line, the existing 161 kV line

[5] AmerenCILCO, AmerenCIPS, AmerenIP, Docket Nos. 09-0306 – 0311 (Cons.), 32-37.

will not be available for purchase. It is not an option for AIC - at any price. As I have previously explained, the fact that MEC is willing to sell its new $14 million Transmission Line to AIC for approximately $120,000 per the terms of an agreement between MEC and AIC does not cause the Transmission Line's actual value to be less than $14 million. Attachment B to Staff Ex. 1.0, wherein MEC makes clear its plans to fully recover its $14 million cost for constructing the Transmission Line, demonstrates that MEC knows the Transmission Line's value is approximately $14 million and MEC intends to fully recover that amount.

The proposed sale price for the Transmission Line and MEC's planned cost recovery mechanism are both unrelated to my recommendation that the Commission condition its approval of the transfer of the Transmission Line. My recommendation that the Commission's approval be conditioned is based upon the following:

- The 17.2 miles of new 161 kV transmission line to be transferred can and will only exist if the Commission grants MEC's request for a certificate in Docket No. 14-0494 to construct the proposed double-circuit 345/161 kV Oak Grove to Sandburg line, <u>and</u> ATXI's request in Docket No. 14-0514 for an order pursuant to Section 8-503 to construct Sandburg Substation. If the Commission's decision in this docket precedes its decisions in Docket Nos. 14-0494 and 14-0514, the Commission would not know whether the Transmission Line will ever actually be constructed.
- The Commission's approval should not be so open-ended as to include asset transfers that can never occur because the asset never exists. My recommendation to link the Commission's approval of the proposed asset

transfer of the Transmission Line to its decisions in Docket Nos. 14-0494 and 14-0514 is simply a practical way to eliminate the open-ended Commission approval that would otherwise exist due to the timing of its decision in this docket before the conclusion of Docket Nos. 14-0494 and 14-0514.

- If the Commission were to approve the transfer of the Transmission Line in this docket prior to issuing its Final Orders in Docket Nos. 14-0494 and 14-0514 without the conditions that I recommend, that approval would presume that the Transmission Line will exist, and therefore presume the future decisions in Docket Nos. 14-0494 and 14-0514. This is because the Transmission Line that is described in the Companies' petition can only be constructed by MEC if MEC receives the certificate it requests in Docket No. 14-0494 and ATXI receives the Order pursuant to Section 8-503 that it requests in Docket No. 14-0514.

<u>Conclusion</u>

Q. **Would you please summarize your position regarding the Companies' request?**

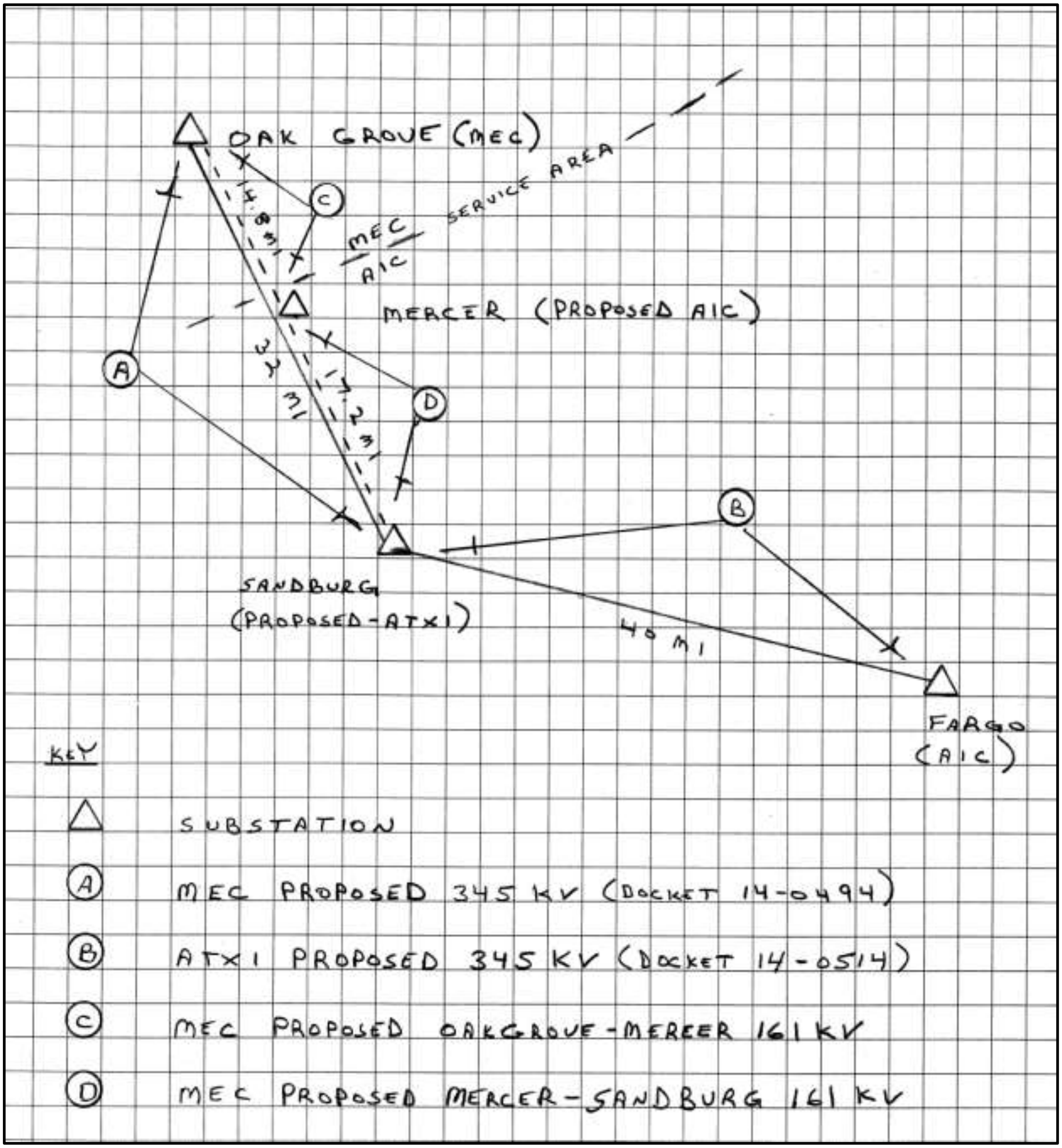
A. The Companies petition contemplates the transfer of a Transmission Line from MEC to AIC. I do not oppose the transfer. The reason I recommend a finding that the Commission's approval for the transfer of the Transmission Line is required is that the Transmission Line's cost and value exceeds the threshold specified in Section 7-102 of the Act and 83 Ill. Adm. Code Part 105.[6] The reason I recommend that the Commission condition its approval on the outcomes of Docket Nos. 14-

[6] Staff Ex. 1.0, 3.

0494 and 14-0514 is that the very existence of the Transmission Line depends upon the outcome of Docket Nos. 14-0494 and 14-0514, and the Commission's decision in those dockets has not yet occurred. Conditional approval would allow the Commission to issue an order in this docket prior to issuing its orders in Docket Nos. 14-0494 and 14-0514 without presuming the outcome in those dockets. Such a conditioned approval would have no negative effect on the Companies' proposed transfer of the Transmission Line and associated certificate if the Commission grants the Companies' requests in Docket Nos. 14-0494 and 14-0514. It is my understanding that the Companies do not oppose the conditional approval that I recommend.

Q. **Does this conclude your prepared rebuttal testimony?**

A Yes, it does.


OAK GROVE (MEC)
SERVICE AREA
MEC
AIC
MERCER (PROPOSED AIC)
A
B
C
D
SANDBURG
(PROPOSED - ATXI)
40 MI
FARGO
(AIC)
KEY
SUBSTATION
A MEC PROPOSED 345 KV (DOCKET 14-0494)
B ATXI PROPOSED 345 KV (DOCKET 14-0514)
C MEC PROPOSED OAKGROVE-MERCER 161 KV
D MEC PROPOSED MERCER-SANDBURG 161 KV